



STATEMENT OF ACTUARIAL OPINION

Annual Statement of Yosemite Insurance Company For the Year Ended December 31, 2008

IDENTIFICATION

I, Peter G. Wick, am associated with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards for Statements of Actuarial Opinion regarding fire and casualty insurance company statutory Annual Statements. I am also a Fellow of the Casualty Actuarial Society. I was appointed by the Board of Directors of Yosemite Insurance Company ("the Company") on December 5, 2008 to render this opinion.

The loss and loss adjustment expense reserves and unearned premium reserves are the responsibility of the Company's management; my responsibility is to express an opinion on those reserves based on my review.

SCOPE

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2008. The items upon which I am expressing an opinion, as shown in Exhibit A, reflect the disclosures shown in Exhibit B.

The Company writes certain contracts for which I am required to opine on the unearned premium reserves. These contracts fulfill both of the following conditions: (1) the contract term is greater than or equal to thirteen months, and (2) the Company can neither cancel nor increase the premium during the contract term. In the opinion below, I will refer to these contracts as "long duration contracts."

In forming my opinion on the loss and loss adjustment expense reserves and long duration unearned premium reserves, I relied upon data and related information prepared by the Company. In this regard, I relied on Mr. Craig Squier, Director and Chief Actuary of Yosemite Insurance Company as to the accuracy and completeness of the data.

I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities.

In performing this evaluation, I have assumed that the Company (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. I also reconciled the earned premium amounts, paid loss and loss adjustment expense amounts, and case reserve amounts as of December 31, 2008 used in my analysis against Schedule P - Part 1 of the Company's current Annual Statement. In other respects, the analysis underlying my opinion included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

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My review was limited to the items included in Exhibit A, and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets which have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

OPINION

In my opinion, the sum of the amounts carried on account of Items 1, 2, and 8., the sum of the amounts carried on account of Items 3, 4, and 7., and the amount carried on account of Item 5., all as shown in Exhibit A:

- A. Meet the requirements of the insurance laws of the State of Indiana;
- B. Are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves);
- C. Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements; and
- D. Make a reasonable provision for the unearned premium reserves for long duration contracts of the Company under the terms of its contracts and agreements.

RELEVANT COMMENTS

Risk of Material Adverse Deviation

There are a variety of risk factors that expose the Company's reserves to significant variability. I have identified the major risk factors as the nature of the Company's business and its exposure to long-tail coverage including asbestos, environmental and other mass tort claims. The potential impact of these risk factors is described in more detail in the following paragraphs and in the report supporting this opinion. The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on the Company's reserves.

The nature of Yosemite Insurance Company's on-going business (such as involuntary unemployment insurance) makes its claim experience particularly sensitive to economic events such as recessions and increased layoffs. The uncertainty of the economy along with the Company's unearned premium reserves for long-duration contracts, increases the uncertainty of the Company's reserves.

It should also be noted that a portion of the Company's loss and loss adjustment expense reserves arise from certain categories of long-tail exposures which include environmental and asbestos claims. The reserves for these claims reflect the Company's assessment of its exposure based on the circumstances surrounding each claim and include a provision for additional development on both known and unreported claims of this nature. Estimates of ultimate liabilities for these claims are uncertain due to outstanding issues such as whether coverage exists, definition of an occurrence, determination of

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ultimate damages and allocation of such damages to financially responsible parties. Therefore, any estimate of these liabilities is subject to significantly greater than normal variation. Reasons for this include a general lack of sufficiently detailed data, absence of a generally accepted actuarial methodology for these exposures, and significant unresolved legal issues including such items as whether coverage exists, what constitutes an occurrence, etc. Additionally, the determination of ultimate damages and the final allocation of such damages to financially responsible parties is highly uncertain. While my opinion with respect to the Company's carried reserves includes these exposures, an indeterminable amount of additional liability may develop due to the general risks inherent in major litigation, expanded theories of liability, and future court coverage decisions.

I believe that the risk factors above, coupled with the variability that is inherent in any estimate of unpaid loss and loss adjustment expense obligations, could result in material adverse deviation from the carried net reserve amounts. In making this determination, I have considered a material adverse deviation to be one in which the actual net unpaid losses and loss adjustment expenses arising from the loss reserves or from the unearned premium reserves for long duration contracts exceed the total of Items 1., 2., and 8. on Exhibit A by an amount greater than \$23.9 million. This materiality standard, shown as Item 5. in Exhibit B, is equal to 10% of the Company's statutory surplus shown on the Liabilities, Surplus and Other Funds page of the Annual Statement, less the \$75 million dividend paid on January 9, 2009. (The January 2009 dividend payment would essentially reduce surplus by \$75 million.) My selection of the materiality standard was based on the fact that this opinion is prepared for the regulatory review of the Company. Other measures of materiality might be used for reserves that are being evaluated in a different context.

Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, my projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Company's historical database or that are not yet quantifiable.

Reinsurance

The actuarial report in support of this opinion includes a summary of the Company's ceded reinsurance that is or could be material to the Company's ceded loss and loss adjustment expense reserves and unearned premium reserves for long duration contracts as of December 31, 2008. The Company has represented that the summary is materially accurate and complete, and that the Company has determined that these contracts should be accounted for as reinsurance under statutory accounting principles. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. As such, I express no opinion as to whether the Company's ceded reinsurance contracts meet the requirements for reinsurance accounting.

Based on representations made by Company management and its description of the Company's ceded and assumed reinsurance, I am not aware of any reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk).

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I reviewed the Company's ceded reinsurance balances as shown in Schedule F of the Company's Annual Statement. There are no material reinsurance recoverables on paid losses that are classified as over 90 days past due. Further, the Company has represented that it knows of no uncollectible reinsurance cessions and no disputed reinsurance balances. I also reviewed the ratings of the Company's reinsurers, using the A.M. Best Insurance Reports published as of February 12, 2009. There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by A.M. Best or that were reported to be in liquidation, conservation or receivership. Approximately 21% of reinsurance recoverable is from reinsurers for which no A.M. Best rating was available. I have performed no additional review of the collectibility of the Company's reinsurance and am expressing no opinion on the financial condition of its reinsurers.

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves and unearned premium reserves for long duration contracts net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible. I am not aware of any reinsurance that the Company treated as collectible but should have treated as uncollectible. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the Company as reflected in the data and other information provided to me.

IRIS Ratios

The booked reserves do not create exceptional values in the IRIS tests One-Year Reserve Development to Surplus, Two-Year Reserve Development to Surplus, and Estimated Current Reserve Deficiency to Surplus.

Methods and Assumptions

I did not review the year-end 2007 reserves, therefore, I cannot compare my current methodology and assumptions to prior methodology and assumptions. The Company has represented to me that there were no material changes in the actuarial methodologies previously used to estimate the statutory unpaid claim liabilities in deriving their booked estimates.

Other Disclosures

Salvage and Subrogation

The Company has represented that its total carried reserves are gross of anticipated salvage and subrogation recoveries.

Discounting

I evaluated the loss and loss adjustment expense reserves and unearned premium reserves for long duration contracts on an undiscounted basis with regard to the time value of money. The Company has represented that it does not reduce reserves to reflect discounting.

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Underwriting Pools and Associations

The Company has represented that it does not participate in pools and associations.

Asbestos and Environmental Exposure

I have reviewed the Company's exposure to asbestos and environmental pollution claims. Reported claims activity to date leads me to conclude that this exposure is material. The Company currently holds \$16.8 million of reserves for losses and allocated loss adjustment expenses, which is intended to represent the Company's management's estimate of the ultimate liability for these items. This reserve estimate is based upon consideration of the current state of the applicable law and coverage litigation, and the nature of the claims reported to date. Any estimation of these liabilities is subject to significant variation and uncertainty. Reasons for this include a general lack of sufficiently detailed data, absence of a generally accepted actuarial methodology for estimating these exposures, and significant unresolved legal issues including such items as whether coverage exists, what constitutes an occurrence, etc. Additionally, the determination of ultimate damages and the final allocation of such damages to financially responsible parties are highly uncertain. While my opinion with respect to the Company's carried reserves includes these exposures, an indeterminable amount of additional liability may develop due to the general risks inherent in major litigation, expanded theories of liability and future court coverage decisions.

Extended Loss and Expense Reserves

The Company has represented that it does not write extended loss and expense contracts and therefore carries no extended loss and expense reserves.

Contractual Liability for Service Contracts

The Company has represented that it does not provide contractual liability coverage for service contracts (vehicles, appliances, etc).

Pre-Paid Loss Adjustment Expenses

The Company has represented that the reserve for unpaid loss adjustment expenses was established based on the estimated amount to adjust all open and unreported claims, regardless of pre-payments made to third party claims administrators.


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SUPPORTING DOCUMENTS AND USAGE

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the Company to be retained for a period of seven years in the administrative offices of the Company and made available for regulatory examination.

This Statement of Actuarial Opinion is solely for the use of, and only to be relied upon by, the Company and the various state departments with which it files its Annual Statement.



Peter G. Wick
Fellow, Casualty Actuarial Society
Member, American Academy of Actuaries

Milliman, Inc.
15800 Bluemound Road, Suite 400
Brookfield, WI 53005
(262) 784-2250

February 25, 2009

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EXHIBIT A: SCOPE

		Column 1
<u>Loss Reserves:</u>		<u>Amount</u>
1.	Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$27,683,937
2.	Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	\$4,620,635
3.	Reserve for Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15, Line 12 * 1000)	\$47,827,000
4.	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Totals from Cols. 17, 19 and 21, Line 12 * 1000)	\$8,623,000
5.	The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	\$0
6.	Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	NA
<u>Premium Reserves:</u>		
7.	Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$34,980,298
8.	Reserve for Net Unearned Premiums for Long Duration Contracts	\$34,978,360
9.	Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	NA

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EXHIBIT B: DISCLOSURES

	<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>
1. Name of the Appointed Actuary		Wick	Peter	G.
2. The Appointed Actuary's Relationship to the Company Enter E or C based upon the following: E if an Employee; or C if a Consultant			C	
3. The Appointed Actuary is a Qualified Actuary based upon what qualification? Enter F, A, M, or O based upon the following: F if an FCAS; A if an ACAS; M if not a member of the CAS, but a Member of the American Academy of Actuaries approved by the Casualty Practice Council, as documented with the attached approval letter; or O for Other			F	
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following: R if Reasonable; I if Inadequate or Deficient Provision; E if Excessive or Redundant Provision; Q if Qualified (use Q when part of the opinion is Qualified); or N if No Opinion			R	
5. Materiality Standard expressed in US dollars (used to answer Question #6)	\$23,908,036			
6. Is there a Significant Risk of Material Adverse Deviation?		Yes [X]	No []	Not Applicable []
7. Statutory Surplus (Liabilities, Col. 1, Line 35)	\$314,080,362			
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Part 1 Summary, Col 23, Line 12*1000)	\$ 0			
9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
9.1 Nontabular Discount [Notes, Line 31 B23, (amounts 1, 2, 3 & 4)], Electronic Filing Cols 7,8,9 & 10	\$ 0			
9.2 Tabular Discount [Notes, Line 31 A23, (amounts 1 & 2)], Electronic Filing Cols 7 & 8	\$ 0			

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Exhibit B: DISCLOSURES (continued)

	<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>
10. The net reserves for losses and expenses for the company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.				
	\$ 0			
11. The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.				
11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 32A03D, ending net asbestos reserves for current year), Electronic Filing Col. 11	\$7,896,753			
11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 32D03D, ending net environmental reserves for current year), Electronic Filing Col. 11	\$8,931,117			
12. The total claims made extended loss and expense reserve (Schedule P Interrogatories).				
12.1 Amount reported as loss reserves	\$ 0			
12.2 Amount reported as unearned premium reserves	\$ 0			
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	N/A			